

# Sewer Service and Use Charge Fund

M  
I  
S  
S  
I  
O  
N

**T***o account for the financing, construction, and operation of the sanitary sewer system and for San José's share of the financing, construction, and operation of the regional San José/Santa Clara Water Pollution Control Plant (WPCP). Services provided through this fund are:*

- *Sewer maintenance;*
- *Sewer rehabilitation; and*
- *Sewage treatment at the Water Pollution Control Plant*

# Sewer Service and Use Charge Fund

## Budget Summary

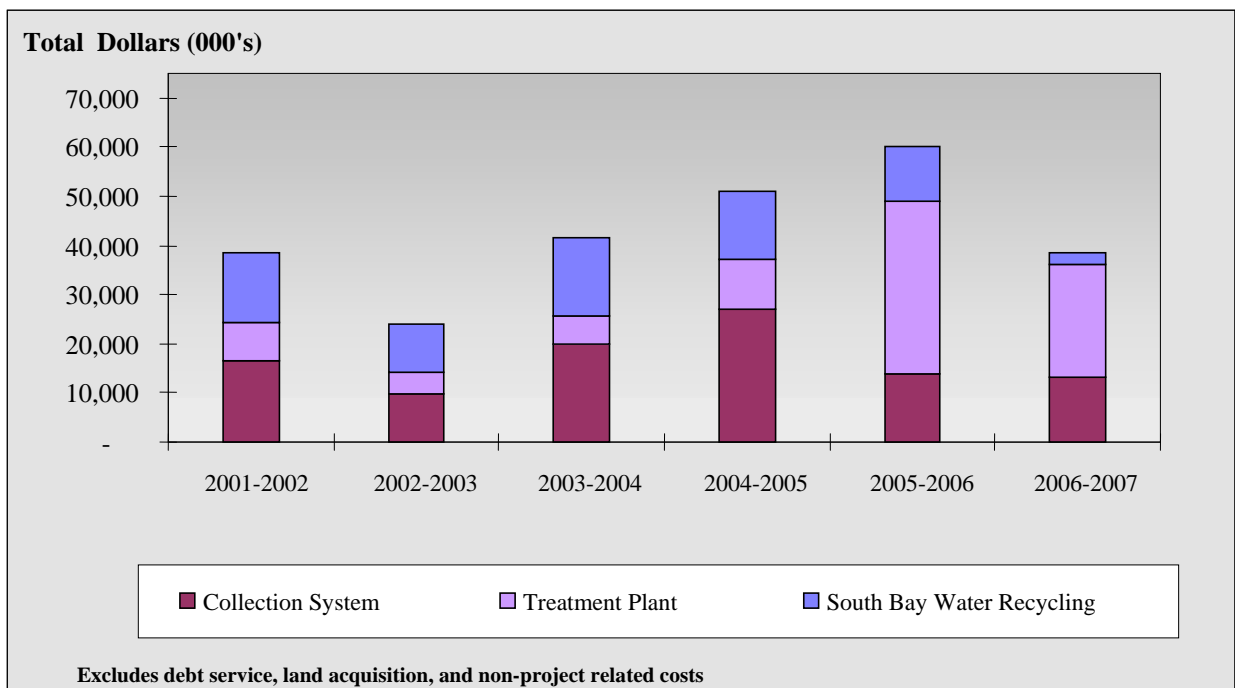
	2007-2008 Adopted	2008-2009 Adopted	Change
Sewer System Maintenance and Admin.	\$ 22,013,952	\$ 23,005,658	4.5%
Sanitary Sewer Rehabilitation	\$ 14,475,000	\$ 15,970,000	10.3%
Water Pollution Control Plant	\$ 74,697,000	\$ 71,138,000	(4.8%)

## Budget Highlights 2008-2009

- ❑ A rate increase of 15% to the Sewer Service and Use Charge fees was approved in order to adequately fund maintenance and rehabilitation of the sanitary sewer system, Water Pollution Control Plant, and the South Bay Water Recycling program.
- ❑ Additional positions were approved to address capital project support, mechanical training and safety, succession planning, expansion of Fats, Oils and Grease program, environmental inspection, Residual Sludge Management staffing, and collection system assessment.

**B**udget  
**yte**

## Sewer Service and Use Charge Fund Historical Trend of Expenditures For Capital Projects (Includes Collection System, Treatment Plant, and Water Recycling Programs)



# Sewer Service and Use Charge Fund

---

## Fund Overview

---

**T**his fund serves as the primary revenue source for several other funds which include the San José/Santa Clara Treatment Plant Operating and Capital Funds, and the Sewer Service and Use Charge Capital Improvement Fund, through annual transfers. In cooperation with the Departments of Environmental Services, Public Works, and Transportation, these funds are managed to deliver services in the most efficient and cost-effective manner.

Included in the fund balance is a Rate Stabilization Reserve of \$2 million, which was established in response to covenants in the bonds issued in 1995 to finance the construction of the South Bay Water Recycling project. The annual debt service cost for that project is \$5.5 million after the refinancing of the bond in 2005-2006. Included in the budget is an additional \$6 million debt service reserve.

The primary source of this fund's revenues are the fees paid through tax-based assessments within the residential, commercial, and industrial sectors. Prior to 2004-2005, these fees had remained at the same rate for ten years. Over the years, the Sewer Service and Use Charge Fund had experienced flat or declining revenues due to two primary factors. First, the downturn in the economy slowed revenue growth as residential development decreased, rendering the growth rate to below 0.5%. Second, and more significantly, industrial and commercial migration from the area has substantially reduced revenues from these sectors.

During the 2004-2005 budget process, the City Council approved a three-year rate increase plan of 4.5% annually. For 2007-2008, a 9% rate increase was approved, primarily to fund critical infrastructure needs at the Plant.

Even with these rate increases, however, the

sewer enterprise funds have not been able to avoid deficit spending and reduced capital investment. The continuing inflationary pressures from costs such as construction materials, energy and employee benefits have increasingly forced the deferral of capital projects. This includes capital needs throughout the sewer system such as the rehabilitation of pump stations, replacement of sewer lines, and repair of electrical distribution systems, digesters, and other equipment within the wastewater treatment facility.

Although the majority of the operating expenditures associated with this fund have followed a stable and predictable rate of inflation, there have been several items that have exceeded expenditure projections during this period. Most notable among these has been the increase in energy costs over the past five years. Natural gas and electricity costs at the treatment plant have risen 35% despite numerous energy efficiency programs that have reduced the energy demand per million gallons treated. Total energy costs for the treatment plant now represent about one-third of all non-personal/equipment costs.

Natural gas prices have continued to increase more than 7% per year on average, and remain volatile and significantly above 1999-2000 levels.

Other items that have exceeded the general rate of inflation include vehicle and facility maintenance costs, workers' compensation costs, retirement, and other personnel related costs.

As operating expenses are increasing, the Treatment Plant's capital infrastructure needs are becoming ever more critical. Over 50% of the Plant's infrastructure exceeds 30 years of age, reflecting the expansion to an advanced wastewater treatment facility in the early to mid

# Sewer Service and Use Charge Fund

## Fund Overview (Cont'd.)

1970's. Several major components of the Treatment Plant are reaching the end of their useful years of service, thereby creating the need for several critical infrastructure upgrades and rehabilitation projects which are described in the 2009-2013 Adopted Capital Improvement Program.

In addition to the impending rehabilitation projects over the next 10 years, it will be necessary to fund a number of planned security projects at the Plant. The most critical project with the greatest operating budget impact is the conversion from gaseous chlorine as the primary disinfection source to alternate methods in order to address security concerns. The completion of the project, estimated for 2009-2010, is projected to increase chemical costs by \$2.5 million annually, or approximately 2.5% of current year revenues.

These combined factors limit the City's ability to aggressively address the capital rehabilitation needs for both the sanitary collection system and the Plant. Future deferral of capital

rehabilitation projects or daily maintenance efforts will only diminish the abilities of the Public Works, Transportation, and Environmental Services Departments to achieve and maintain reasonable asset integrity.

In order to begin reversing this trend, the City Council approved a rate increase of 15% in 2008-2009, which is expected to generate approximately \$13 million in additional revenue to support the capital infrastructure needs of the sanitary sewer collection and treatment system. The rate increase will raise the sewer service and use charge monthly rate by \$3.53, from \$23.56 to \$27.09 in 2008-2009. This level of increase has been presumed in both the five-year Capital Improvement Program and this Adopted Operating Budget. In 2010-2011, the Plant Master Plan will be completed; the results of which will guide the development of new financing strategy to implement the projects and address other sanitary sewer system needs.

## Fund Summary

	2006-2007 Actual 1	2007-2008 Adopted 2	2008-2009 Adopted 3	% Change (2 to 3)
<b>Dollars by Sources</b>				
Beginning Fund Balance	\$ 31,563,437	\$ 27,472,614	\$ 24,387,037	(11.2%)
Sewer Service and Use Charges	79,905,060	85,677,438	100,205,834	17.0%
Interest and Other	1,334,730	1,239,814	547,944	(55.8%)
Transfers	1,416,000	15,300,000	100,000	(99.3%)
<b>Total</b>	<b>\$ 114,219,227</b>	<b>\$ 129,689,866</b>	<b>\$ 125,240,815</b>	<b>(3.4%)</b>
<b>Dollars by Uses</b>				
Sewer System Maintenance and Admin.	\$ 18,023,193	\$ 22,013,952	\$ 23,005,658	4.5%
Sanitary Sewer Rehabilitation	15,375,000	14,475,000	15,970,000	10.3%
Water Pollution Control Plant	49,636,000	74,697,000	71,138,000	(4.8%)
Ending Fund Balance	31,185,034	18,503,914	15,127,157	(18.2%)
<b>Total</b>	<b>\$ 114,219,227</b>	<b>\$ 129,689,866</b>	<b>\$ 125,240,815</b>	<b>(3.4%)</b>

## Sewer Service and Use Charge Fund

### Budget Category: Sewer System Maintenance and Administrative Services

#### Budget Category Overview

**T**his category is responsible for Sewer System Maintenance and Administrative Services. System Maintenance is performed by the Department of Transportation, the Department of Public Works, and the General Services Department to repair damaged sewer pipes and maintain

the system infrastructure. Information Technology Department service costs are also included in this category. Administrative Services include support services provided by various City departments, overhead to the General Fund, fees charged by the County for collecting assessments, and audit costs.

#### Budget Category Summary

<b>Sewer System Maintenance and Administrative Services</b>	<b>2006-2007 Actual 1</b>	<b>2007-2008 Adopted 2</b>	<b>2008-2009 Adopted 3</b>	<b>% Change (2 to 3)</b>
Sewer System Maintenance	\$ 11,416,209	\$ 14,602,983	\$ 14,767,465	1.1%
Administrative Services	6,606,984	7,410,969	8,238,193	11.2%
<b>Total</b>	<b>\$ 18,023,193</b>	<b>\$ 22,013,952</b>	<b>\$ 23,005,658</b>	<b>4.5%</b>

The following changes were adopted in 2008-2009 in the Sewer System Maintenance and Administrative Services allocations:

<b>Adopted Allocation</b>	<b>2007-2008 Adopted</b>	<b>Change</b>	<b>2008-2009 Adopted</b>
<b>Sewer System Maintenance</b>	<b>\$ 14,602,983</b>	<b>\$ 164,482</b>	<b>\$ 14,767,465</b>

Changes to the Sewer System Maintenance Program in the 2008-2009 Adopted Operating Budget reflect salary and benefit cost increases in the Departments of Transportation, Public Works, and General Services (\$566,166), a rebudget of Public Works non-personal/equipment funding for GIS database enhancements (\$115,000), non-personal/equipment adjustments in the Information Technology Department (\$2,555), and costs for State-mandated diesel-power vehicle retrofits (\$43,500). These increases were partially offset by reductions in Department of Transportation non-personal/equipment (\$393,000), Information Technology Department personal services (\$85,739) and Public Works Department non-personal/equipment allocation (\$84,000). The reduction in the Information Technology Department personal services is due primarily to the elimination of one-time funding for IBS related staffing (\$85,739).

## Sewer Service and Use Charge Fund

**Budget Category: Sewer System Maintenance and Administrative Services**

### Budget Category Summary (Cont'd.)

<b>Adopted Allocation</b>	<b>2007-2008 Adopted</b>	<b>Change</b>	<b>2008-2009 Adopted</b>
<b>Administrative Services</b>	<b>\$ 7,410,969</b>	<b>\$ 827,224</b>	<b>\$ 8,238,193</b>
<p>Changes in the Administrative Services Program for the 2008-2009 Adopted Operating Budget are due in part to an increase in overhead charges (\$1,247,765) and City Hall costs (\$45,145). Other adjustments include: personal services adjustments in the Finance Department (\$15,203), Environmental Services Department (\$231,791), City Attorney's Office (\$5,510), Planning, Building and Code Enforcement Department (\$2,262), and City Manager's Office (\$3,739); non-personal/equipment costs in the Environmental Services Department (\$45,027), increased workers' compensation claims (\$41,740), and increased collection costs (\$37,601). These increases were partially off by a reduction in the Commercial Paper payment for the Integrated Billing System project (\$15,513), the funding shift of the Fats, Oils and Grease Inspection Program (\$480,133), reduction of Sanitary Sewer Claims costs (\$350,000) and a GASB43/45 allocation (\$2,913).</p>			
<b>Total Sewer System Maintenance and Administrative Services</b>	<b>\$ 22,013,952</b>	<b>\$ 991,706</b>	<b>\$ 23,005,658</b>

# Sewer Service and Use Charge Fund

## Budget Category: Sanitary Sewer Rehabilitation

### Budget Category Overview

The Sanitary Sewer System Rehabilitation category consists of capital projects designed to rehabilitate the sanitary sewer system, with higher priorities given to those with extensive, severe deterioration. Rehabilitation projects of existing sewers are selected on the basis of pipe corrosion studies, maintenance reports, infiltration analysis, and actual pipe failures.

### Budget Category Summary

	2006-2007 Actual 1	2007-2008 Adopted 2	2008-2009 Adopted 3	% Change (2 to 3)
<b>Sanitary Sewer Rehabilitation</b>				
Transfer to Capital Fund	\$ 15,375,000	\$ 14,475,000	\$ 15,970,000	10.3%
<b>Total</b>	<b>\$ 15,375,000</b>	<b>\$ 14,475,000</b>	<b>\$ 15,970,000</b>	<b>10.3%</b>

The following changes were adopted in 2008-2009 for the Transfer to Capital Fund allocation.

Adopted Allocation	2007-2008 Adopted	Change	2008-2009 Adopted
<b>Transfer to Capital Fund</b>	<b>\$ 14,475,000</b>	<b>\$ 1,495,000</b>	<b>\$ 15,970,000</b>

This transfer supports major projects in the Sanitary Sewer Capital Fund to address the infrastructure rehabilitation and replacement in the City's sanitary sewer system. For 2008-2009, additional transfers of \$1,495,000 were approved to the capital program which will be used to focus on interceptor system and trunkline rehabilitations, neighborhood sewer evaluation and rehabilitation, condition and capacity assessments, and addressing the deferred maintenance and infrastructure backlog. The specific elements of this program are described in the 2008-2009 Adopted Capital Budget and 2009-2013 Adopted Capital Improvement Program.

<b>Total Sanitary Sewer Rehabilitation</b>	<b>\$ 14,475,000</b>	<b>\$ 1,495,000</b>	<b>\$ 15,970,000</b>
--	----------------------	---------------------	----------------------

# Sewer Service and Use Charge Fund

## Budget Category: Water Pollution Control Plant

### Budget Category Overview

**T**his category provides for operational costs, support services, and debt service requirements for the San José/Santa Clara Water Pollution Control Plant (WPCP). This regional wastewater treatment facility serves eight tributary sewage collection agencies, including municipalities and sanitary

sewer districts. The WPCP processes wastewater, operates a Bio-solids Reuse Program, and administers the South Bay Water Recycling Project. In addition, it plans, designs, and constructs new wastewater treatment facilities and provides system maintenance.

### Budget Category Summary

	2006-2007 Actual 1	2007-2008 Adopted 2	2008-2009 Adopted 3	% Change (2 to 3)
<b>Water Pollution Control Plant</b>				
Treatment Plant Operating Fund	\$ 39,500,000	\$ 50,000,000	\$ 46,500,000	(7.0%)
Treatment Plant Capital Fund	4,672,000	24,697,000	19,638,000	(20.5%)
Sewage Treatment Plant Conn. Fee Fund	0	0	5,000,000	N/A
SBWR Revenue Bonds ('95)	5,464,000	0	0	N/A
<b>Total</b>	<b>\$ 49,636,000</b>	<b>\$ 74,697,000</b>	<b>\$ 71,138,000</b>	<b>(4.8%)</b>

Transfers to the above wastewater-related funds support the operating, capital, and debt service costs of the San José/Santa Clara Water Pollution Control Plant.

The Plant is one of the largest and most complex advanced wastewater treatment facilities in the nation. During the past 50 years, nearly \$1 billion in today's dollars have been invested to transform the Plant from a basic primary level treatment facility to a state-of-the-art advanced treatment plant.

As the majority of the Plant's infrastructure reaches and exceeds 30 years of service, critical aspects such as electrical distribution systems, concrete structures, pumps, motors, piping and valves need to be replaced or rehabilitated. With less federal funding available, many similar facilities are finding that this

reinvestment in infrastructure can only be accomplished with local funding.

One of the primary sources of expenditures in the past several years has been diversion activities associated with the 120 million gallons per day (mgd) flow trigger to the South San Francisco Bay. The diversion of fresh water effluent from the Bay prevents saltwater marsh conversion. This diversion of fresh water has been primarily achieved through the Revised South Bay Action Plan (Plan), as approved by City Council in June 1997.

The projects within this Plan include expanded water recycling, industrial water recycling/reuse, inflow/infiltration reduction, and environmental enhancement pilots. Recycled water is used by industrial and institutional users, diverting water that would otherwise be discharged to the Bay.

## **Sewer Service and Use Charge Fund**

### **Budget Category: Water Pollution Control Plant**

#### **Budget Category Summary (Cont'd.)**

The following changes were adopted in 2008-2009 from the Sewer Service and Use Charge Fund to the Treatment Plant Operating Fund, Treatment Plant Capital Fund, and to the Sewage Treatment Plant Connection Fee Fund:

<b>Adopted Allocation</b>	<b>2007-2008 Adopted</b>	<b>Change</b>	<b>2008-2009 Adopted</b>
<b>Treatment Plant Operating Fund</b>	<b>\$ 50,000,000</b>	<b>\$ (3,500,000)</b>	<b>\$ 46,500,000</b>
For 2008-2009, a transfer of \$46.5 million was approved from the Sewer Service and Use Charge Fund to the Treatment Plant Operating Fund to provide sufficient funds for program expenses related to the Water Pollution Control Plant. The \$3.5 million decrease can be offset by savings realized from contingencies, reserves, as well as some salary savings from the previous fiscal year. Transfer amounts from this fund to the Treatment Plant Operating Fund vary each year based on the anticipated ending fund balance in that fund.			
<b>Treatment Plant Capital Fund</b>	<b>24,697,000</b>	<b>(5,059,000)</b>	<b>19,638,000</b>
For 2008-2009, \$19,638,000 was approved to be transferred to the Treatment Plant Capital Fund to support the Water Pollution Control Capital Program. The reduction of this transfer is possible due to the elimination of the Fuel Cell Project because of disagreements with the contractor. The Treatment Plant is currently exploring another option for the Fuel Cell project such as a power purchasing agreement. The continued elevated level of funding reflects efforts to address the significant number of critical projects, identified at \$250 million, identified in a consultant's study in 2006-2007.			
<b>Sewage Treatment Plant Connection Fee Fund</b>	<b>0</b>	<b>5,000,000</b>	<b>5,000,000</b>
The transfers from the Sewer Service and Use Charge Fund to the Sewage Treatment Plant Connection Fee Fund is necessary to repay that fund for funds previously provided for the Fuel Cell Project that has been eliminated due to disagreement with the contractor. The Sewage Treatment Plant transferred the funds to the Treatment Plant Capital Fund for this project in 2007-2008.			
<b>Total Water Pollution Control Plant</b>	<b>\$ 74,697,000</b>	<b>\$ (3,559,000)</b>	<b>\$ 71,138,000</b>